Law Practice Phase Two:
Building a Plan for the Next Era of Your Career

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Businesses are regularly bought and sold based on standard valuation models and facilitated by thousands of business brokers and consultants. But a legal practice is dramatically different than other types of small businesses, and most attorneys have no clear picture of how they can "sell" their practices for a value appropriate to the decades of effort and dedication the have invested in it.

Further, attorneys are often different than traditional business people in that they do not wish to abruptly and completely leave their profession, but would prefer to step back over time.

Most large firms have a structure in place for this "stepping back." But sole practitioners, unless they have devoted years of planning to the issue, will not have the opportunity to do so. In failing to plan their exit strategy well, small firm attorneys throw away the value of their accumulated goodwill and lose hundreds of thousands of dollars in additional income.

In short, there is no clear model for a process that creates the desired result. Most either close the doors or attempt to sell the "book" to another attorney as though it were an inventory of saleable products in a traditional business.

The most difficult aspect of this sale is that most of the value of an attorney's practice is not in the "book" but in the personal goodwill that attorney has built with the client and with their referral base. Simply selling a practice results in a drastically discounted value.

The thoughtful attorney will undertake a carefully planned and choreographed process to pass a viable and bountiful practice on to a successor in a manner which allows them to cash out their full value, step back over time from the ownership and management of the firm, and remain in practice with the firm for an extended period. This allows not only for a larger "sale" value over time, but also provides additional income and allows them to stay connected with their profession.

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Such a process is centered around eight key elements which must be addressed over an extended period:

1. **Development of a timeline for attorney transition**

Failure to develop a clear picture, and a clear timeline, for all significant elements of the transition will result in failure to achieve the transition successfully. Without a clear picture, attraction and retention of an appropriate successor will be extremely difficult. The committed successor must be able to "understand the game," so to speak.

A last comment on building a timeline for succession. The best timeline is the longest. Even with the most exacting planning, false starts with wrong candidates are possible, which argues strongly for clear and frequent performance evaluations. 5 years is the optimum, since it allows time to recover from false starts.

2. Identification of Successor(s)
The traditional attorney plan begins and seemingly ends with the hiring of an associate and a hope that this person may wish to – and be qualified to – take over the firm. But a normal associate hiring process seldom creates the desired result, due in large part to the fact that few attorneys have the expertise to make the best hire under even the most normal of circumstances.

The attorney must begin the process by developing a detailed profile of the characteristics of the ideal candidate.

3. Transition of ownership
It is essential for the firm to lay out a plan for transition of ownership shares of the firm. There are several reasons for this.

First, percentage of ownership relates directly to the ability to "take over the helm." The outgoing attorney must benchmark the transition concretely through a timed plan to surrender some, and eventually all, ownership – and thus management control – in the firm.

Second, for the outgoing attorney, the ownership transition is a principal method by which they can "cash out" the value he or she has accumulated in building the firm. Within this step, ownership must be translated to shares, and a valuation and compensation model established. In this step, the attorney's practice must be transitioned into a corporate model, which not only values the shares, but relates compensation to percentage of ownership.

Third, in order to attract and retain the best successor, there must be a clear picture of how the successor gains ownership and control of the firm over time. A potential successor, who will be almost by definition a reasonably aggressive and goal-oriented person, must see a clear path to "power" rather than hearing vague statements and unclear timelines. Without this clarity the potential successor may pass the opportunity in favor of another more certain path such as building his or her own firm.

4. Transition of management
The transitioning attorney has a range of management responsibility, from overseeing financials to hiring & firing, authorizing purchases, etc. For succession to occur in an orderly fashion, these roles must be defined, and a timeline developed for the transfer of roles to the successor over time. The successor needs to understand how and when they take over various aspects of firm management.

5. Transition Of Leadership
Management and leadership are distinctly different, although irrevocably interlocked, issues. In sole practices or small firms, staff is used to viewing the attorney as "spiritual" as well as functional head of the firm.

The transition plan must also address how to effectively transition this informal role over time, so that staff accept the succeeding attorney as the authority, and do not maintain sub rosa allegiance to the transitioning attorney. Too often, loyal staff may abandon the practice as the senior attorney steps back, damaging the practice and successful completion of the succession.

6. Transition Of Business Development
The transitioning partner typically holds most of the business origination through decades of relationship development with other professionals.

A specific part of the succession plan must be a plan to transition these highly valuable referral relationships to the successor, to protect the firm's current and future health and revenue stream.

7. Transition Of Client Relationships
In assuring the short and long-term success of the firm, transfer of primary client responsibility and relationships is as essential as the transfer of referral relationships. Just as with the referral relationships, the transfer is not accomplished quickly, but through a planned shift in emphasis from the relationship of the transitioning partner to the partner assuming responsibility for the work and the relationship.

8. Evolution of Compensation Structure
There are two important reasons the transitioning attorney must change the compensation structure from informal to formal:

First, for the transitioning partner to achieve their goal of stepping back in their technician role and continuing to be a marketing engine for the firm, there must be a compensation structure which directly rewards originations, and clearly defines compensation for the roles of responsible attorney and production attorney(s).

Second, for the firm to attract the highest quality of successor attorney, that attorney must be able to understand clearly how they will be compensated, what they must accomplish to gain their desired income, and the incentives to either work harder or smarter to achieve higher personal income. They must also have reasonable understanding that the majority of their compensation will be objective, and not the result of the subjective decision of the transitioning attorney.

Obviously, this is a complex, multi-year process fraught with potential problems. It is unlikely to be fully executed without the initial planning support and long-term guidance of a professional succession coach.

But the payoff is immense: it can mean hundreds of thousands of dollars more in personal income over the transition period; as much or more added to the overall "cash-out" value of the firm; and a viable, continuing firm where the transitioning attorney can stay and play, earning additional money for production and origination after the transition.

Dustin Cole, president of Attorneys Master Class, is a Master Practice Advisor who helps attorneys build more profitable, enjoyable practices and create financially successful retirement and transition plans. For more information go to www.attorneysmasterclass.com or contact Cole at (407) 830-9810 or via e-mail at dustin@attorneysmasterclass.com.